

INTERIM REPORT

Macquarie Bank Limited

INTERIM REPORT for the half-year ended 30 September 1999

INTERIM RESULT

Macquarie Bank is pleased to announce a record result for the first half. The result was achieved during a busy period for the Bank, including the acquisition of the Bankers Trust Australia Limited investment banking business (BTIB) in July and the relocation of the Bank's head office to No. 1 Martin Place in Sydney.

Consolidated after-tax profit increased to \$91.5 million compared with \$80.5 million in the previous corresponding period, an increase of 14 per cent. Profit before tax increased by 13 per cent on the previous corresponding period, to \$120 million. The annualised after-tax return on average ordinary shareholders' funds was 25.2 per cent. Included in these figures is a net gain on acquisition and integration of BTIB of \$3.8 million (\$2.4 million after tax).

Basic earnings per share were 54.9 cents, up 11 per cent from the previous corresponding period.

Total operating income rose by 33 per cent from the previous corresponding period to \$532.5 million. Fee and commission income contributed 65 per cent of income for the Group and rose 29 per cent on the previous corresponding period. Trading income rose by 34 per cent on the previous corresponding period, largely due to contributions by the Treasury and Commodities Group and an increased contribution by the Equities Group. The increase in net interest income by 54 per cent on the previous corresponding period is primarily attributable to the inclusion of the BTIB loan book and the fixed interest business acquired.

The Bank's Tier 1 capital base increased from \$0.65 billion to \$1.14 billion during the period. Thus, the Group's Tier 1 ratio was maintained at around 13 per cent.

All six main business Groups contributed to the result. There were excellent results in Asset and Infrastructure Group, Equities Group and Treasury and Commodities Group. In Asset and Infrastructure, this reflects the high levels of business activity both domestically and internationally, where a record number of US cross-border leases were completed. Equity Markets contributed significantly to the Equities Group's result, with profits being recorded by all Equity Markets' offices. The Treasury and Commodities result reflects excellent performances from its bullion and foreign exchange operations and pleasing contributions from the new debt markets and agricultural commodities businesses in their two months of operations. The Corporate Finance Group also made substantially increased profits reflecting high levels of mergers and acquisition activity.

The Banking and Property Group performed solidly during the first half, although its contribution to revenue was lower than the previous corresponding period due to investment in new businesses and the fact that some fees will not be earned until the second half. Although the Investment Services Group had stand-out performances in the Group's active equities portfolio, its performance was affected by increased expenditure and systems development. Additionally, the Group's direct distribution business was transferred to Macquarie Financial Services (Equities Group) on 1 April 1999.

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RELATIVE CONTRIBUTIONS BY OPERATING GROUP (%)

	Half-year to 30/9/1999	Full year to 31/3/1999
Asset and Infrastructure	35	27
Equities	21	13
Treasury and Commodities	20	22
Corporate Finance	14	15
Banking and Property	6	11
Investment Services	4	10
Other	0	2
Total	100%	100%

The figures set out in this table are proportionate contributions by business Group to the Bank's performance. They should be taken as a guide only to relative contributions and are derived from management accounts.

CONSOLIDATED GROUP PROFITS (\$ million)

HALF-YEAR ENDED 30 SEPTEMBER

	1999	1998	Change
Total operating income	532.5	399.2	33%
Total operating expenses	412.4	292.9	41%
Pre-tax profit	120.1	106.3	13%
Income tax expense	28.8	25.8	12%
Outside equity interests in result	0.2	—	N/A
Net operating profit	91.5	80.5	14%

CONTRIBUTION TO OPERATING INCOME

	Half-year to 30/9/1999	Full year to 31/3/1999
Fee and commission income	65%	68%
Trading income	18%	16%
Net interest income	17%	15%
Other	0%	1%
Total operating income	100%	100%

ACQUISITION OF THE BT INVESTMENT BANK

On 31 July 1999 Macquarie Bank acquired BTIB. BTIB was part of the Bankers Trust Australia Limited Group (BTAL), a successful, full service financial institution operating mainly in the Australian market. BTAL had an outstanding profit and risk management record over 30 years.

The acquisition of BTIB is consistent with Macquarie's existing strategic direction. It reinforces each of the key elements of the Bank's corporate philosophy of operating as an independent, Australian-based investment bank, striving to offer a full suite of investment banking services.

Over time, the BTIB businesses will offer significant opportunities to Macquarie's clients through integrated financing and investment solutions and allow the Bank to strengthen its market positions across a range of businesses, without sacrificing diversity of income streams.

Macquarie has always placed strong emphasis on recruitment and retention of the best people. Through organic expansion, Macquarie expected to recruit 1,000 people during this year. BTIB offered a source of high quality personnel who were able to understand Macquarie's culture and management philosophy. The Bank was delighted that 87 per cent of offers made to BTIB staff were accepted, resulting in the hiring of 463 people.

There have been four main areas of change as a result of the BTIB acquisition:

- acquisition of assets and liabilities giving rise to an increase of approximately \$11.9 billion in the balance sheet
- acquisition of BTIB's Debt Markets team, which is a major addition to the client servicing capabilities of the Bank
- trading in agricultural commodities products, including both futures and over-the-counter contracts in soft commodities
- some increased proprietary trading.

The most significant impact of the acquisition has been in the Treasury and Commodities Group where staff numbers increased by around 70 per cent, with the largest increase in Debt Markets. Debt Markets

operates in five global locations, and provides sales, trading, origination and research functions. The Debt Markets team has brought Macquarie a significant and established franchise of long standing in the Australian marketplace, and is a leading and high quality provider of a full range of debt products and services to its client base.

Macquarie also acquired BTIB's Agricultural Commodities business, represented in Melbourne, Sydney, Chicago, Sao Paulo, New York and London. This business provides tailored risk management solutions to the agricultural industry and is a world leader in agricultural over-the-counter risk management.

The Capital Management Division within Treasury and Commodities Group is a dedicated proprietary trading business. It has an excellent track record over several years. As with other businesses acquired from BTIB, Capital Management's activities have been accommodated within Macquarie's risk management framework.

The acquisition also saw important additions to Macquarie's teams in other areas including Corporate Finance, Asset and Infrastructure, Equities and support groups.

Macquarie acquired BTIB at a discount of \$19.9 million after valuing all assets and liabilities at net fair value in accordance with the Bank's normal accounting principles. Macquarie brought to account as expenses all costs relating to the acquisition and integration of BTIB. These costs totalled \$16.1 million and were principally funding costs, technology costs, professional fees and profit share. The net gain of \$3.8 million before tax was recognised in determining the result for the first half.

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BALANCE SHEET AND CAPITAL

ADEQUACY RATIOS

Total assets grew markedly, from \$9.2 billion at 31 March 1999 to \$27.6 billion at 30 September 1999, while risk-weighted assets increased by a much smaller amount of \$4.9 billion to \$8.6 billion. The increase in total assets was primarily driven by increased trading assets (\$7.8 billion) and increased loan assets (\$2.8 billion) related to the BTIB acquisition, and the greater use of Macquarie's balance sheet by the new BTIB businesses post-acquisition.

The Bank has presented fixed interest trading assets relating to the BTIB acquisition on a gross basis to reflect generally accepted accounting principles. BTIB had previously reported these assets on a net basis. The impact of this change was to increase reported gross assets and liabilities by about \$5 billion, largely representing holdings of government securities. The change had no impact on risk-weighted assets or funding requirements.

CAPITAL ADEQUACY

	30/9/1999	31/3/1999	30/9/1998
Tier 1 Capital (\$m)	1,139	647	629
Total Capital (\$m)	1,338	862	853
Risk Weighted Assets (\$m)	8,555	4,987	4,736
Tier 1 ratio (%)	13.3	13.0	13.3
Total ratio (%)	15.6	17.3	18.0

At 15.6 per cent, Macquarie Bank Group's capital adequacy ratio continues to well exceed the 8 per cent minimum imposed by the Australian Prudential Regulation Authority (APRA). In addition, the Tier 1 ratio of 13.3 per cent is also well above the APRA minimum of 4 per cent.

Risk-weighted assets have increased substantially over the first half primarily because of the acquisition of BTIB. The increase in risk-weighted assets has been covered by the increases in Tier 1 and Total Capital over the first half.

The strong capital position of the Bank enhances its commercial flexibility and promotes counterparty confidence. However, the Bank is constantly reviewing its capital position to ensure that it has the appropriate level for its businesses going forward.

Macquarie's funding sources now include:

- conversion of many BTIB deposit clients to Macquarie Bank depositors

- Macquarie's offshore funding programme where maximum funding has expanded from US\$1 billion to US\$3 billion
- facilities organised by Macquarie's new Euro Commercial Paper desk in Hong Kong
- proceeds of the issue of \$100 million of ordinary shares and \$150 million of converting preference shares
- proceeds of the issue of \$400 million of a new type of instrument called Macquarie Income Securities, \$200 million of which was issued post-balance date.

Loans and advances, lease receivables and balances due from governments (total loan assets) grew from \$3.9 billion at 31 March 1999 to \$6.7 billion at 30 September 1999. The majority of this growth was driven by the BTIB acquisition.

IMPAIRED LOANS (NET OF SPECIFIC PROVISIONS) (\$ million)

	30/9/1999	31/3/1999	30/9/1998
Non-performance	15.6	40.6	32.5
Partial performance	—	—	5.0
Restructured	—	—	—
Other real estate owned	10.5	3.3	3.3
Total	26.1	43.9	40.8
% of loan assets	0.5%	1.1%	1.0%

CREDIT RATINGS

Macquarie Bank's credit ratings continue to reflect its strong financial performance, the quality of its business dealings, strength of the management team and sound risk management policies.

	Short-term	Long-term
Standard & Poor's	A1	A
Moody's	P-2	A3
Fitch/BCA	F1	A+
Thomson BankWatch	TBW-1	AA- (senior debt)
Japan Rating & Investment Information	—	A+ (foreign currency)

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ASSET AND INFRASTRUCTURE GROUP

The Group had an excellent first half with outstanding results from international leasing and finance activities. Important steps were taken for the further development of the Group including the establishment of a Tokyo office by the Project and Structured Finance Division (PSF), the acquisition of a portfolio of European infrastructure assets by Macquarie Infrastructure Group (MIG), the US listing of LookSmart and over 30 staff joining the Group from BTIB.

The Project and Structured Finance Division (PSF) advises on, provides and originates large asset financings, particularly in infrastructure and project finance, cross-border leasing and structured finance generally. Following the acquisition of BTIB, PSF now has over 80 executives in Australia, with a further 60 executives located in 10 international offices, making it the largest group of its type in Australia and one of the largest internationally.

PSF transactions completed within Australia during the first half included advising InterGen on the \$1.4 billion Millmerran greenfield coal-fired power station, and Swanston Trams and V/Line Passenger franchises in Victoria. In addition, PSF advised the Hills Motorway Group on its \$470 million refinancing.

Internationally, PSF completed a record number of major US cross-border lease equipment financings for a range of clients including Qantas, Austrian Railways, Cathay Pacific, KLM, Telekom Austria, Helsinki Telecom, City of Vienna and Telstra. During the first half the Division also opened a representative office in Tokyo.

PSF was recognised internationally when Macquarie Bank was awarded the 1999 No.1 Infrastructure Financial Adviser in Australasia, by industry publication *Privatisation International*.

Infrastructure and Specialised Funds (ISF) manages the Macquarie Infrastructure Group (MIG), the High Yield Infrastructure Debt Trust (HYIDT), the Horizon Energy Group, the Transurban City Link Trust and the Hills Motorway Trust. During the first half ISF also established Macquarie Specialised Asset Management which manages unlisted infrastructure investments on behalf of institutional investors.

Macquarie executives are actively involved in the ongoing operation management of MIG assets, generally through representation on the Boards of the special purpose entities which own the assets.

During the first half, ISF purchased significant new assets for MIG including substantial holdings in infrastructure assets, primarily toll roads, in the UK, Portugal and Germany. In addition, it entered into exclusive negotiations to purchase a controlling interest in the M4 Motorway. To fund these acquisitions, MIG undertook a 1-for-2 renounceable rights issue which raised \$428 million and increased MIG's market capitalisation to around \$1.25 billion.

Macquarie Capital continued to strengthen its position as a leading financial services provider to the corporate, professional, government and small business sectors. This position has been enhanced by the integration of most of the BTIB loan and lease book. As at 30 September 1999, the portfolio of loans had grown to over \$3.3 billion, reflecting the acquisition of BTIB assets and organic growth in the leasing businesses.

Macquarie Leasing, which provides asset purchase and leasing facilities to the SME market, has continued its significant growth, with \$0.5 billion of lease receivables outstanding. The business typically finances motor vehicles, plant and equipment and office equipment.

Macquarie IT, an information technology equipment financing business, is now a major provider of IT operating leases to the government and corporate markets in Australia and continues to experience significant growth in New Zealand.

The motor vehicle leasing business, in which it has a large share of the government motor vehicle lease market, continues to contribute strongly to Macquarie Capital's results.

Macquarie Technology Investment Banking (MTIB) is a specialist provider of advisory services to the technology sector, operating through offices in Australia, the USA and Asia. Through Macquarie Technology Funds Management Pty Limited, MTIB operates the \$48 million Macquarie Technology Fund (MTF) and acts as investment adviser to the \$30 million Acer Technology Partners Fund.

Highlights for MTIB during the period included the successful NASDAQ listing of LookSmart Limited, in which Macquarie Bank holds a 2.4 per cent shareholding and MTF has a 0.75 per cent holding. MTIB was also involved in the listing on the ASX of Protel International Limited, a portfolio investment of MTF which has been realised since 30 September 1999.

EQUITIES GROUP

Equities Group recorded a very satisfactory result during the first half. All three operating Divisions were profitable, reflecting continued improvement of the Group's market share and market position.

With the integration of recent acquisitions now largely completed and joint venture operations beginning to show results, most businesses are well positioned to face the challenges ahead in what is likely to be a fast changing landscape.

The markets in which the Group operates are potentially highly volatile with valuations in some cases at extreme levels. Although it is not desirable to expand too rapidly in an environment where volumes and values may be peaking, the Group is conscious that it needs to achieve optimal resourcing levels.

Macquarie Financial Services (MFS) is a newly created Division arising from a combination of the state-based private client broking franchises and the Investment Services Group direct distribution channel. The Division is rapidly becoming a diversified wealth management business offering traditional stockbroking services, internet access to research and trading, managed funds and superannuation, financial planning, discretionary account management and a soon-to-be launched WRAP account reporting and trading facility.

MFS is the retail face of Macquarie and is a very important distributor for Equity Capital Markets with 10 equity raisings distributed in the first half.

Macquarie Equities Limited is the Bank's wholesale stockbroking business, providing a full range of institutional and corporate stockbroking services to local and offshore investors. This business continues to experience an improved market share, a well ranked research Division and Australian and international distribution that has continued its rise to prominence, aided by Macquarie's highly regarded mergers and acquisition and equity underwriting capability.

The **Equity Markets Division** is the Bank's equity derivative origination, distribution and trading business. The Division had another outstanding result, with very strong profits being recorded in all geographic locations. This Division is now succeeding in the retail, wholesale and trading segments of the market and will continue to actively seek international opportunities to utilise these skills and products.

Global Equities Service is responding to industry trends to offer disaggregated services. To this end Macquarie announced a joint venture initiative with the highly regarded Australian brokerage house JB Were, to form a clearing company for the clearing of equity securities. The combined market share of the two firms is sufficient to make this opportunity economic while potential remains for other partners and or clients to be added to this venture.

Equity markets worldwide have been rich in opportunity for several years in what appears to be a stretched business cycle. The Equities Group, although performing and positioned well, may be susceptible to a downturn in equity values and volumes.

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TREASURY AND COMMODITIES GROUP

The Treasury and Commodities Group produced a very strong first half. This result is particularly pleasing given the magnitude of the integration task faced by the Group following the acquisition of BTIB.

The acquisition brought the Group significant new businesses (Debt Markets, Agricultural Commodities and Capital Management), an increase in staff numbers of approximately 70 per cent, significant new assets and increased volumes in the existing Futures, Foreign Exchange, Money Market and Metals and Mining businesses. A significant amount of time has been spent within the Group ensuring that all of the expanded Treasury and Commodities systems are aligned with the increased business requirements. This effort will continue into the second half.

All business units in the **Metals and Mining Division** (previously known as Bullion and Commodities Division) achieved strong earnings despite the fact that the first half result was marginally down on the previous corresponding period. While volatile market conditions provided good trading opportunities, Metal and Mining's income was earned from customer related transactions. The unprecedented gold price volatility in late September led to a number of significant customer transactions and the controls on trading books proved once again to be robust. The gold books are now at record volume levels. All aspects of the gold-related businesses covering Spot, Forward and Option Trading, Physical and Bullion Banking/Producer Services produced strong results.

The Base Metals businesses generally did well in less volatile markets and have a positive outlook for the full year.

Foreign Exchange Division provides 24-hour interbank price-making services in the Australian dollar spot, forwards and option markets plus interbank pricemaking in Yen and Euro during Sydney timezone. In addition, the structured products desk provides term hedging solutions for both importers and exporters across a broad industry spectrum.

The Division has had an excellent first half with volumes doubling and all desks meeting and exceeding expectations.

Money Market Division is responsible for the Bank's funding in addition to trading most interest rate markets. The Division continued to manage the Bank's liabilities very effectively. Funding requirements have increased significantly as a result of the acquisition of BTIB.

In the **Futures Division**, market volumes were depressed early in the first half of the year, improving somewhat later in the period. The Division has been working on integrating the acquired BTIB futures business. Over recent months Macquarie has been the largest broker by turnover on the Sydney Futures Exchange. Futures Clearing has expanded to include equity options clearing and continues to be a source of growth for the business.

The **Debt Markets Division's** business function was transformed more than any other Bank business by the BTIB acquisition. Almost the entire BTIB debt team joined Macquarie and the pre-acquisition Macquarie debt team either remained in the Division or transferred to the Asset and Infrastructure Group. In acquiring the BTIB team of 75 people, Macquarie moved from being a niche business of debt origination and placement capabilities, to a full service Australian dollar debt business. The business now encompasses origination, placement, structuring, trading, sales and research functions for government and investment grade debt securities.

Debt Markets Division continues to be a significant force in the mortgage-backed security market. It is a clear market leader in motor vehicle-backed securities, having completed six of the seven issues placed in the Australian market during the first half. The business is a top tier fixed income house and has the largest profile outside the major Australian trading banks in the commercial paper market and its reach extends to derivatives and structured products.

After a break from the marketplace during the months leading up to the integration with Macquarie, the Debt team has covered much ground marketing the Bank's name and ensuring a smooth transition of client relationships. Customers have generally welcomed the business transfer.

Risk Advisory Services Division is the market leader in providing independent financial and risk management advice in Australia. It experienced a strong first half due to continued growth in mandates over the period. The merger with BTIB has brought wider opportunities for Risk Advisory Services which, together with some rationalisation in the advisory marketplace, is likely to see continued growth in activity and income in the second half of this year.

The **Agricultural Commodities Division** is a leader in the provision of over-the-counter risk management services to the agricultural industry. It has made a successful transition from BTIB to Macquarie with staff in all six global locations now part of the Macquarie Group. The transition of customer business to Macquarie has also been successful. While grain markets were quiet and at extremely low levels, the sugar market has been highly volatile over the recent period. This has enabled the Division to produce strong results in its first two months, while concurrently dealing with the integration.

Wool hedging products have recently been transferred into the Division. While overall wool turnover was lower than the previous corresponding period, grower turnover was slightly higher and the Division is well placed to profit from increased risk management by the industry.

The Division will continue to expand its customer base and leverage its global locations across the Bank's businesses.

The Bank has decided to discontinue trading in electricity derivatives.

The **Capital Management Division** undertakes principal trading activities. Members of the team bring a broad depth of experience and strong technical and modelling skills, having worked as senior price makers in interest rate and foreign exchange businesses.

The Division runs two trading strategies: discretionary trading based on an individual's analysis of global market conditions; and model trading, where trading decisions are based on historical trend analysis. To date, the diversification across those two strategies has resulted in a break-even performance. The revenue base is spread across well-established and liquid global fixed income, foreign exchange and equities markets in European, American and Asian markets.

The Treasury and Commodities Group remains confident that its businesses will continue to grow strongly although it is mindful of the potential for market illiquidity over the New Year period which may adversely affect second half results.

CORPORATE FINANCE GROUP

The mergers and acquisitions and capital raising markets experienced continuing high levels of activity during the first half.

This was the result of continuing rationalisation and restructuring of particular industries including manufacturing and resources, continuing growth of the telecommunications, infrastructure and e-commerce sectors and increasing levels of takeover activity.

While equity market conditions were mixed over this period, capital raising activity remained high.

Overall, the Group's performance for the first half has been strong and, given the high level of current transactional activity, the outlook for the second half period is positive.

Corporate Advisory Services enjoyed an excellent first half. The result was considerably stronger than the previous corresponding period.

The Division advised on a broad range of transactions during the period including: the purchase of ANI by Smorgon Steel and its simultaneous listing; the merger of WD & HO Wills with Rothmans Holdings; the acquisition of Crown Casino by Publishing and Broadcasting Limited through a Scheme of Arrangement; the divestment of Programmed Maintenance Services by Schroder Venture Managers through a public listing; and the divestment of CSR's softwood plantations and solid timber processing assets in South Australia and Victoria. In New Zealand, the Division has advised a subsidiary at the Tauranga District Council on the sale of a critical 7 per cent shareholding in Trustpower to AGL and prepared the Independent Appraiser Report in respect of the proposed merger of Fletcher Challenge Paper Limited with Fletcher Challenge Canada Limited.

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There are a number of transactions currently in progress. These include the defence of Holyman Limited, advising Acacia Resources on takeover bids from Delta Gold and Anglo Gold and the acquisition by Telecom New Zealand of a majority interest in AAPT.

Equity Capital Markets Division also had an excellent first half, raising over \$1.5 billion for its clients.

The Division has been active in the infrastructure sector with two major capital raisings: a \$428 million rights issue for Macquarie Infrastructure Group and a \$310 million placement and rights issue for Envestra.

The Initial Public Offer (IPO) market has been buoyant with the Division bringing Protel (\$47 million) and Great Southern Plantations (\$45 million) to the market, both of which have performed extremely well in the aftermarket. This continues Equity Capital Markets' strong track record of high quality small capitalisation floats such as Ci Technologies and Aristocrat.

The Division was also joint underwriter of the \$150 million Futuris issue of convertible notes, arranger of a \$216 million sell-down by Singapore Telecom in AAPT and a co-lead manager for Telstra 2.

Two recent government appointments include joint lead manager for the Western Australian Government's IPO of Alinta Gas and sole lead manager for the Queensland Government's sell-down of its stake in Bank of Queensland.

Other transactions include the \$400 million Macquarie Income Securities issue, the realestate.com.au and Volante IPOs, and a rights issue, placement and Australian Stock Exchange listing for Sigma.

BANKING AND PROPERTY GROUP

The Banking and Property Group's contribution in the first half was down on the previous corresponding period due primarily to investment in new businesses and the timing of some revenue items. A strong second half is expected from the Group with the Property Divisions scheduled to complete a number of major projects. During the first half, a number of new businesses were further developed, including:

- Macquarie Implemented Property Service, which provides investors with access to a portfolio of quality domestic and international property and property-related assets
- Asiawide, an Asia Pacific property fund for institutional investors
- realestate.com.au, Australia's leading internet real estate listing
- Hotel Investment Banking, which provides advisory services to the hotel sector
- Macquarie Mortgages which provides Macquarie branded as well as wholesale mortgage products, to Australian home buyers.

The **Property Finance Division** is a specialist financier to the property development industry. Over the first half, through this business, Macquarie has continued to be a significant participant in property development Australia-wide and has now funded over \$1.9 billion of development projects including 6,000 medium density apartments. Loan assets and commitments total \$900 million, up from \$580 million at the beginning of the year. The Division is expected to produce significant income during the second half, including the contribution of the business acquired through the BTIB purchase.

Property Investment Banking Division maintained its position as the leading property adviser in Australia, winning a number of high-profile mandates focused on property-led strategies to enhance shareholder value. AMP Asset Management and Macquarie Bank jointly launched the AMP China Housing Program, an initiative that will undertake select investments in housing developments in China. The Program will provide over US\$50 million in equity for investment in residential property development projects in Beijing, Shanghai and Tianjin, for development and sale as individual units.

The **Property Investment Management Division** manages four listed property trusts: the foremost commercial trust Macquarie Office Trust (MOF), the leading property trust Macquarie CountryWide Trust (MCW), Macquarie Industrial Trust (MIP) and Macquarie Leisure Trust (MLE). During the first half, property assets managed by the business grew from \$1.5 billion to \$1.7 billion with MOF, MCW and MIP all continuing to outperform their specific property sectors and being ranked in the top 10 out of 43 property trusts surveyed in the Nelson Parkhill BDO 1999 Annual Review of Property Trusts. Macquarie Direct has completed three successful syndicated property projects: EC Direct Property Trust, VC Direct Property Trust, JJ Direct Property Trust with a fourth prospectus registered and released to the market called Pitt and Hunter Direct.

Medallist Golf Developments, an alliance with Greg Norman's Great White Shark Enterprises, is currently involved in projects worth \$400 million. It has joined forces with AMP Asset Management to invest in residential, real estate branded, golf course developments throughout Australia and North America. Both AMP and Medallist will contribute equity into an international capital fund which will invest in a range of Medallist-branded developments over a three-year period.

Macquarie Securitisation enhanced its position as Australasia's number one issuer of mortgage-backed securities, as well as exploring further securitisation opportunities in Australia and Asia. Macquarie Securitisation's POLAR vehicle is the fourth largest issuer of commercial paper in Australia, with \$870 million of outstandings.

Macquarie Mortgages is a new Division of Banking and Property. The Division signed a new origination agreement with Aussie Home Loans (AHL), Australia's largest non-bank lender, during the first half, continuing the highly successful relationship between Macquarie and AHL.

In addition to managing the relationship with AHL and a variety of mortgage managers, building societies and credit unions around Australia, the Division was established and launched primarily to distribute Macquarie Bank branded products directly to the market. In excess of 70,000 mortgages are managed by Macquarie Mortgages which have an outstanding balance approaching \$9 billion.

Banking Solutions Division continued to grow its banking services to professional firms and cemented its position as the market leader in service and innovation to the real estate industry. Initiatives such as the DEFT rent payment system have driven this growth and there are currently over 100,000 DEFT cards in use.

Private Investment Banking Division has grown strongly with client numbers and funds under management more than doubling in the first half. It now has \$750 million total funds under management through its masterfund, PRISM (Private Investment Selection Masterfund), advisory services and banking and deposits.

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INVESTMENT SERVICES GROUP

The Investment Services Group manages investments through a range of funds, trusts and outsourcing services across a wide variety of asset classes, for both retail and institutional clients.

At 30 September 1999, the Group's portfolio under management was \$20.9 billion, comprising:

- \$10.2 billion managed on behalf of individual investors through the Retail Investments Division, and
- \$10.7 billion for superannuation funds, corporations and institutions through the Institutional Funds Division and Macquarie Portfolio Services.

During the first half, the Group has improved its standing as a manager of active Australian equities by achieving strong returns for both institutional and retail investors. Strong fund inflows and first quartile performance by the Group's diversified growth, balanced and active equities funds have been achieved over the period.

In addition, the Group launched a number of specialist share funds and two new private equity offerings, building on Macquarie's in-house expertise in both listed and unlisted equities.

Another highlight of the period was the announcement of a strategic alliance with the leading global equities house, Lazard Asset Management. Lazard has been appointed to manage Macquarie's international and Asia Pacific share portfolios on behalf of both retail and institutional clients.

The **Retail Investments Division** currently has over 290,000 individual investors, through its relationships with 6,000 financial advisers and the Bank's direct distribution team.

Macquarie's \$6.1 billion Cash Management Trust, Australia's largest managed investment, continued to dominate its market, with net inflows of more than \$75.5 million in the period from 31 March 1999. During the period, the Division announced a joint gold charge card link via American Express and the commencement of an on-line transaction facility through the internet site www.macquarie.com.au/transact.

The **Institutional Funds Division** significantly grew its funds under management during the first half. The growth arose from attracting investments in active and enhanced Australian equities and other growth products. The Division's sales force has been expanded and strategic realignment of marketing and branding objectives have contributed to the Division's recent success.

Operational and fund highlights for the Division include the launch of new funds and expansion in both currency execution and private equity areas.

The **Asset Management Division** is responsible for the investment of the Group's wholesale and retail funds.

Macquarie Investment Management has produced first quartile returns in active Australian equities, enhanced Australian equities, global equities and bond fund categories over the calendar year to September 1999. This performance underlies the success towards its objective to be a top ranking fund manager across the major asset classes.

Macquarie Portfolio Services has built on Macquarie's strong administrative, processing and client services by extending these to external fund managers seeking to outsource these services. Macquarie is now providing these services to a number of funds managers in the local marketplace.

The official launch of Macquarie Portfolio Manager in mid October 1999 was another important on-line innovation designed to win clients in the retail financial planning market.

DIRECT INVESTMENT DIVISION

Macquarie Direct Investment reported a modest profit for the first half as a result of the sale of an investment. During the period considerable progress was made on the realisation of three further investments, the expectation being that these transactions will close during the second half of the year. Cellnet Communications and Volante Group are expected to be listed on the Australian Stock Exchange in the near future, while a third company is expected to be realised through a trade sale. These transactions will generate solid capital gains and incentive fees.

During the first half, Macquarie Investment Trust II made new investments in Hermes Precisa Australia and Associated Media Investments. It also made a follow-on investment in Signature Security. These investments effectively brought this trust to the position of being fully invested. During this period Direct Investment also marketed Macquarie Investment Trust III, a third fund aiming to raise \$250 million for investment in the private equity area. As part of this fund-raising effort, the Bank's retail clients were given the opportunity to invest through the Macquarie Private Equity Trust. The response to both the retail and the institutional offer was very strong and the trust held a first closing of \$200 million in May 1999.

INVESTMENT ASSETS

The Bank from time to time acquires equity as remuneration for its services. Of particular note, the Bank holds an investment in LookSmart Limited, acquired as a result of advisory services to the Company. Macquarie holds 1,951,679 Common Stock and 439,999 Warrants over shares of Common Stock exercisable at approximately US\$5 each. These securities are currently recorded in the Bank's financial report at cost, which aggregates to approximately \$1.08 million. As at 16 November 1999 Macquarie's

holding had a market value of \$125.2 million. The Bank's holding is subject to various escrow arrangements with just over 20 per cent of the Stock to be held in escrow until at least 6 August 2000. The Warrants are to be held in escrow until at least 25 March 2000.

The Bank has made no decision at this time in relation to the disposal of this investment.

YEAR 2000

Macquarie Bank is highly confident that it is well prepared for the Year 2000. The Bank can assure its clients that their money will be as safe over the year end as it is at any other time. This conviction is based on the results of our testing and the strong business and technology controls in place.

Macquarie's systems testing and remediation process is complete and core applications currently in use have been found to be compliant. Processes have been established to manage the Year 2000 evaluation of ongoing modifications to systems and system change freezes are now in place.

The Bank has been active in the Interbank Working Group Testing Subgroup as well as participating in testing with the Australian Stock Exchange and the

Sydney Futures Exchange. The successful completion of this testing has reinforced Macquarie's confidence in the preparedness of the banking industry generally.

While the Bank is not able to control the compliance of external organisations on which it relies for critical business functions, Macquarie continues to monitor the Year 2000 activities of critical third parties and has developed contingency plans as appropriate.

Risk management, transition management and contingency plans are in place at business level to specifically manage Year 2000 risks, together with those associated with the leap year. Testing of key plans was completed by September 1999.

INTERIM REPORT

Macquarie Bank Limited

TOTAL GROUP ASSETS UNDER MANAGEMENT AND ADMINISTRATION

Total Group assets under management and administration are \$35.2 billion, an increase of \$2.2 billion since 31 March 1999. An increase of institutional funds (up \$900 million from the previous corresponding period) and retail funds (up \$400 million) were the predominant component of this increase. In addition, two of the Bank's assets under administration, Hills Motorway Trust and Airport Motorway Group, were revalued during the first half by \$500 million and \$340 million respectively.

As mentioned in the Investment Services Group section, the Macquarie Cash Management Trust grew beyond \$6 billion in funds during the first half. It is still, by a significant margin, the largest cash management trust in the Australian market.

Assets under management are those assets that the Group actively manages and the underlying business is wealth creation. Assets under administration are assets that the Group either monitors or services but does not actively involve itself in increasing the assets' value. These assets are detailed below:

	30/9/1999	31/3/1999
ASSETS UNDER MANAGEMENT (\$ billion)		
Retail	10.2	9.8
Wholesale	10.7	9.8
Listed Trusts	2.5	2.3
Other	0.4	0.5
Total	23.8	22.4
ASSETS UNDER ADMINISTRATION (\$ billion)		
Mortgages	8.9	8.7
Listed Trusts	1.9	1.5
Other	0.6	0.4
Total	11.4	10.6
Total	35.2	33.0

INTERIM DIVIDEND

The Board has resolved to pay an interim dividend of 34 cents per fully paid ordinary share in respect of the half-year to 30 September 1999. The record date for the dividend will be 26 November and the dividend will be paid on 21 December 1999. This represents a pay-out ratio of 63 per cent of first half reported earnings or 65 per cent of earnings excluding the profit on the acquisition of BTIB.

The dividend will be 65 per cent franked. The reduced franking level has been foreshadowed in previous reports. Future dividends are expected to be franked at similar levels to this interim dividend.

The Bank will also pay the first dividend on the Converting Preference Shares, issued in August this year, on 15 December 1999. The dividend will be in accordance with the terms of issue of those shares and will also be franked to 65 per cent. The record date for this dividend will be 1 December 1999.

OUTLOOK

The Bank is confident that the leading market positions held by its domestic and international businesses will be maintained or strengthened.

Efforts during the second half will be focused on further consolidation of growth initiatives launched over the past 12 months. In particular, there will be a need to complete the integration of the BTIB businesses so that the Bank can build on the firm base established during the first half of the year.

The Bank recognises the opportunities associated with e-commerce for both its new and existing businesses, particularly for our medium to long-term growth prospects. In response to this we have significantly increased internal e-commerce activity and have begun a Bankwide initiative. The initiative involves individual Divisions and the Bank as a whole, and will ultimately help to accelerate the Bank's activities in this area.

In addition to this effort Macquarie's website recently underwent a major upgrade involving the re-design of over 2,500 web pages. The new-look site, which

came on-line in late November, has been designed to be accessible for end-users, and demonstrates the Bank's commitment to new technologies.

As the year ends the Bank is mindful of the impact of the potential systems issues arising from the Year 2000. While the Bank has every confidence in the level of its preparedness for Y2K, we are starting to see a reduction in financial market activity and we expect to see some slowing of revenues in the late stages of 1999.

Despite the potential for slowdown over the new year period, the Bank is hopeful of continued good performance in the second half, with a result at least in line with that achieved in the first half.



D.S. Clarke, Director



A.E. Moss, Director

DIRECTORS' REPORT for the half-year ended 30 September 1999

In accordance with a resolution of the Voting Directors ('the Directors') of Macquarie Bank Limited ('the Bank'), the Directors submit herewith the Balance Sheet at 30 September 1999 and Statements of Profit and Loss and Cash Flows of the Bank and its controlled entities (together, 'the consolidated entity') for the half-year ended on that date ('the period') and report as follows:

DIRECTORS

At the date of this report Directors of the Bank are:

Executive Directors:

D.S. Clarke, AO, *Executive Chairman*
A.E. Moss, *Managing Director and Chief Executive Officer*
M.R.G. Johnson

Non-Executive Directors:

B.N. Kelman, AO, *CBE Deputy Chairman*
J.G. Allpass
L.G. Cox, AO
B.R. Martin
H.K. McCann
H.M. Nugent (appointed 1 June 1999)

Unless indicated, the above Directors each held office as a Director of the Bank throughout the period.

RESULT

The consolidated profit for the period attributable to members of the consolidated entity after provision for income tax was \$91,538,000 (1998: \$80,513,000).

DIVIDENDS

The Bank paid or provided the following dividends during the period:

Payment date	Type	\$	In respect of year ending	
2 July 1999	Final	62,456,571	31 March 1999	Paid
21 December 1999	Interim	57,967,207	31 March 2000	Provided

STATE OF AFFAIRS

On 25 June 1999, the Bank announced that it would acquire the Bankers Trust Investment Bank ("BTIB") business. The acquisition became effective on 31 July 1999. The operating results of the BTIB business have been included in the profit and loss statement since the date of acquisition.

With the exception of the matter noted, in the opinion of the Directors there were no significant changes in the state of affairs of the consolidated entity that occurred during the period under review not otherwise disclosed in this report or the consolidated financial report.

REVIEW OF OPERATIONS


A review of the operations of the Bank and its controlled entities and the results of those operations for the period are contained in the Chairman's and Managing Director's Interim Report.

CONTINUOUS DISCLOSURE

The Directors approved the introduction of a Continuous Disclosure Programme in December 1994. This consists of an independent reporting system by which senior management and the Board can be notified of events which are reportable to the market under Australian Stock Exchange Limited Listing Rule 3.1.

ROUNDING OF AMOUNTS

In accordance with Australian Securities & Investments Commission Class Order 98/0100 amounts in the consolidated financial report have been rounded off to the nearest thousand dollars unless otherwise indicated.



D.S. Clarke, Director



A.E. Moss, Director

CONSOLIDATED PROFIT AND LOSS STATEMENT
for the half-year ended 30 September 1999

	Notes	6 Months to 30 Sept 99 \$'000	6 Months to 31 Mar 99 \$'000	6 Months to 30 Sept 98 \$'000
Interest and similar income	2	89,601	66,039	58,334
Trading income	2	96,925	59,140	72,153
Fee and commission income	2	343,938	302,447	266,330
Net gain arising from BTIB acquisition and integration	2	3,797	—	—
Other operating income/(expense)	2	(1,768)	4,379	2,400
Total operating income	2	532,493	432,005	399,217
Employment expenses	2	(278,570)	(218,693)	(201,410)
Accommodation expenses	2	(26,159)	(20,756)	(18,118)
Non-salary technology expenses	2	(24,967)	(19,035)	(19,724)
Other operating expenses	2	(82,679)	(62,027)	(53,668)
Total operating expenses	2	(412,375)	(320,511)	(292,920)
Operating profit before income tax		120,118	111,494	106,297
Income tax expense	3	(28,759)	(27,054)	(25,784)
Operating profit after income tax		91,359	84,440	80,513
Outside equity interest in operating loss after income tax of associates		179	—	—
Operating profit after income tax attributable to members of Macquarie Bank Limited		91,538	84,440	80,513
Retained earnings at the beginning of the period		405,537	383,554	351,385
Adjustment resulting from change in accounting policy for investments in associates	1	(610)	—	—
Total available for appropriation		496,465	467,994	431,898
Less: Dividends paid or provided	4	(57,967)	(62,457)	(48,344)
Retained earnings at the end of the period		438,498	405,537	383,554
			Cents per Share	
Earnings per share	5	54.9	51.7	49.6

The accompanying notes form part of the financial statements.

MACQUARIE BANK LIMITED
and its controlled entities

CONSOLIDATED BALANCE SHEET
at 30 September 1999

	Notes	As at 30 Sept 99 \$'000	As at 31 Mar 99 \$'000	As at 30 Sept 98 \$'000
ASSETS				
Cash and liquid assets		665,931	96,595	155,902
Bullion		81,943	53,485	72,601
Due from clearing houses		104,717	171,035	163,878
Securities	6	6,644,589	1,867,964	1,996,583
Securities purchased under resale agreement		5,793,139	—	—
Loans and advances		5,636,674	3,222,297	2,832,495
Due from other financial institutions		644,267	55,805	65,104
Due from governments		561,734	472,096	477,614
Lease receivables		494,900	252,406	264,211
Other assets	7	6,730,823	2,785,292	2,967,913
Investments		58,395	42,348	35,931
Regulatory deposits		—	66,246	55,049
Fixed assets		73,934	53,664	54,168
Future income tax benefit		121,790	111,413	95,319
Total Assets		27,612,836	9,250,646	9,236,768
LIABILITIES				
Deposits		5,231,830	3,137,318	3,006,105
Due to other financial institutions		2,691,448	998,621	995,539
Due to clearing houses		692	3	167
Negotiable certificates of deposit		2,969,535	1,415,496	1,260,278
Securities borrowed		6,396,069	26,832	102,107
Securities sold under repurchase agreement		1,971,053	—	—
Other liabilities	8	6,383,737	2,442,088	2,686,857
Provision for dividend		57,967	62,457	48,344
Provision for income tax		37,215	27,564	31,568
Provision for deferred income tax		273,290	122,820	115,821
Provision for employee entitlements		91,773	28,006	26,167
Provision for uncertainties	9	48,317	27,916	26,384
		26,152,926	8,289,121	8,299,337
Loan Capital				
Converting Preference Shares		150,000	—	—
Subordinated Debt		310,530	310,262	313,953
		460,530	310,262	313,953
Total Liabilities		26,613,456	8,599,383	8,613,290
SHAREHOLDERS' EQUITY				
Share capital	10	363,992	245,726	239,924
Macquarie Income Securities	10	195,052	—	—
Retained earnings		438,498	405,537	383,554
Total Shareholders' Equity attributable to members of Macquarie Bank Limited		997,542	651,263	623,478
Outside equity interests in controlled entities		1,838	—	—
Total Liabilities, Shareholders' Equity and Outside Equity Interests		27,612,836	9,250,646	9,236,768

The accompanying notes form part of the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the half-year ended 30 September 1999

	6 Months to 30 Sept 99 \$'000	6 Months to 31 Mar 99 \$'000	6 Months to 30 Sept 98 \$'000
Cash Flows From Operating Activities			
Interest and bill discounts received	410,547	288,054	202,873
Interest and other costs of finance paid	(245,108)	(252,979)	(134,483)
Dividends and trust income received	20,300	24,224	18,037
Fees, royalties and commissions received	321,251	317,233	294,454
Fees and commissions paid	(46,624)	(38,509)	(45,089)
Net (payments)/proceeds and receipts from dealing in financial instruments, foreign exchange and commodities	(994,228)	98,333	(517,793)
Customer loans repaid/(granted)	395,374	(347,036)	(575,617)
Recovery of loans previously written off	509	339	833
Leases repaid/(granted)	227,895	9,718	(11,582)
Net increase in money market and other deposit accounts	341,182	274,042	928,264
Employment expenses paid	(221,558)	(147,997)	(214,163)
Net receipts/(payments) from debtors and creditors	41,993	(174,447)	(67,250)
Income taxes paid	(15,900)	(40,153)	(10,698)
Net cash from operating activities	235,633	10,822	(132,214)
Cash Flows From Investing Activities			
Payment for acquisition of businesses, net of cash acquired	(77,408)	(4,802)	—
Payment for acquisition of controlled entities, net of cash acquired	(1,224)	—	—
Payments for property, plant and equipment	(35,230)	(12,892)	(20,158)
Proceeds on sale of property, plant and equipment	7	444	18
Net cash flows from investing activities	(113,855)	(17,250)	(20,140)
Cash Flows From Financing Activities			
Proceeds from the issue of share capital	119,479	5,801	10,404
Proceeds from the issue of Macquarie Income Securities	200,000	—	—
Proceeds from the issue of Convertible Preference Shares	150,000	—	—
Transaction costs for the issue of debt and equity securities	(10,355)	—	—
Dividends paid	(62,457)	(48,344)	(48,620)
Net cash flows from financing activities	396,667	(42,543)	(38,216)
Net (decrease)/increase in cash held	518,445	(48,971)	(190,570)
Cash at the beginning of the period	232,637	281,608	472,178
Cash at the end of the period	751,082	232,637	281,608

The accompanying notes form part of the financial statements.

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**
at 30 September 1999

1. BASIS OF PREPARATION

This general purpose financial report for the half-year ended 30 September 1999 ("the period") has been prepared in accordance with Accounting Standard AASB 1029: Half-Year Accounts and Consolidated Accounts, other mandatory professional reporting requirements (Urgent Issues Group Consensus Views), the Corporations Law and Class Order 98/0111 issued by the ASIC, which provides relief from certain asset and liability classifications in AASB 1029.

This financial report comprises the consolidated financial statements of Macquarie Bank Limited ("the Bank") and the entities it controlled at the end of or during the period (together, "the consolidated entity").

It is recommended that this financial report be read in conjunction with the 31 March 1999 financial report of the Bank and any announcements made by the Bank during the period in accordance with the continuous disclosure requirements of the Corporations Law.

Unless otherwise stated, the accounting policies are consistent with those of the previous financial year and corresponding half-year. Where necessary, comparative figures have been adjusted to conform with changes in presentation at 30 September 1999.

Change in Accounting Policy

In accordance with revised Accounting Standard AASB 1016 "Accounting for Investments in Associates", on 1 April 1999, the consolidated entity changed its policy for accounting for investments in associates to equity accounting those investments (including joint venture entities) which were previously carried at the lower of cost and net realisable value.

Under the transitional provisions of the revised standard, an adjustment has been made to decrease the value of these investments by \$610,000, which has been reflected as a decrease to opening retained earnings.

2. OPERATING PROFIT

Operating profit before income tax has been determined after crediting as income/(charging) as expense:

	6 Months to 30 Sept 99 \$'000	6 Months to 31 Mar 99 \$'000	6 Months to 30 Sept 98 \$'000
Interest and Similar Income			
Interest income received/receivable	363,154	192,154	175,330
Interest expense paid/payable	(305,484)	(155,799)	(145,736)
Lease rental income	31,931	29,684	28,740
Total interest and similar income	89,601	66,039	58,334
Trading Income			
Arising from trading securities	20,648	(2,638)	8,007
Arising from other securities	(219)	207	—
Net gains on foreign currency trading	18,490	4,600	28,173
Arising from other financial instruments	41,545	28,120	21,321
Dividends received/receivable	16,461	28,851	14,652
Total trading income	96,925	59,140	72,153
Fee and Commission Income			
Income	390,812	340,883	307,127
Expense	(46,874)	(38,436)	(40,797)
Total fee and commission income	343,938	302,447	266,330

MACQUARIE BANK LIMITED
and its controlled entities

2. OPERATING PROFIT continued

	6 Months to 30 Sept 99 \$'000	6 Months to 31 Mar 99 \$'000	6 Months to 30 Sept 98 \$'000
Net Gain Arising From BTIB Acquisition and Integration			
Discount on acquisition (refer note 11)	19,933	—	—
Funding expenses	(7,195)	—	—
Information technology expenses	(2,900)	—	—
Other costs including attributable profit share remuneration	(6,041)	—	—
Net gain arising from BTIB acquisition and integration	3,797	—	—
Other Operating Income/(Expense)			
Provision for uncertainties	1,313	(1,532)	5,508
Charge for bad and doubtful debts:			
– recovery of loans previously written off	509	339	833
– recovery of loans previously provided for	453	2,482	512
– specific provisions for loan losses	(5,433)	(2,956)	(3,566)
– loan losses written off	(252)	(25)	(49)
Other income	8,286	14,235	6,411
Other expense	(6,644)	(8,164)	(7,249)
Total other operating (expense)/income	(1,768)	4,379	2,400
Total Operating Income	532,493	432,005	399,217
Employment Expenses			
Provision for holiday pay	(3,728)	(727)	(3,012)
Provision for long service leave	(2,615)	(532)	(1,645)
Salary and salary related costs, superannuation, performance related profit share and staff training *	(272,227)	(217,434)	(196,753)
Total employment expenses	(278,570)	(218,693)	(201,410)
Accommodation Expenses			
Operating lease rental	(18,956)	(13,235)	(12,306)
Depreciation	(4,278)	(4,879)	(3,364)
Other	(2,925)	(2,642)	(2,448)
Total accommodation expenses	(26,159)	(20,756)	(18,118)
Non-Salary Technology Expenses			
Depreciation	(8,903)	(7,220)	(8,413)
Other	(16,064)	(11,815)	(11,311)
Total non-salary technology expenses	(24,967)	(19,035)	(19,724)

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**
at 30 September 1999
continued

2. OPERATING PROFIT continued

	6 Months to 30 Sept 99 \$'000	6 Months to 31 Mar 99 \$'000	6 Months to 30 Sept 98 \$'000
Other Operating Expenses			
Auditors' Remuneration			
– auditors' remuneration for auditing services	(401)	(458)	(381)
– auditors' remuneration for other services	(3,220)	(1,864)	(859)
Total auditors' remuneration	(3,621)	(2,322)	(1,240)
Other depreciation	(1,779)	(968)	(513)
Profit on sale of property, plant and equipment	7	116	18
Other operating expenses	(77,286)	(58,853)	(51,933)
Total other operating expenses	(82,679)	(62,027)	(53,668)
Total Operating Expenses	(412,375)	(320,511)	(292,920)

* Includes an amount for performance related profit share which has been provided but not paid.

3. INCOME TAX EXPENSE

Prima facie income tax on operating profit is reconciled to the income tax expense charged in the profit and loss account as follows:

	6 Months to 30 Sept 99 \$'000	6 Months to 31 Mar 99 \$'000	6 Months to 30 Sept 98 \$'000
Tax expense on operating profit	(43,242)	(40,138)	(38,267)
Add/(deduct) tax effect of permanent differences:			
Rebatable dividend income	1,117	1,948	1,894
Recoupment of Group tax losses	6,145	4,173	3,557
Rate differential on offshore income	4,228	3,827	4,861
Non-deductible expenses	(1,012)	(679)	(469)
Revaluation surplus – life insurance	3,959	3,524	3,518
Other items	46	291	(878)
	14,483	13,084	12,483
Income Tax Expense	(28,759)	(27,054)	(25,784)

Macquarie Bank Limited and its controlled entities have tax years ending on 30 September.

The consolidated entity is currently subject to an audit by the Australian Taxation Office. Some amended assessments have been issued by the Australian Taxation Office for the 1988 to 1991 years. Other issues of potential taxation liability have been raised but have not yet been subject to the issue of

amended assessments. Objections have been lodged in respect of the amended assessments and the other issues of alleged liability are also disputed. In preparing these financial statements the Directors have considered the information currently available and have taken legal advice as to the Bank's liability and in accordance with this believe that provisions made are adequate.

MACQUARIE BANK LIMITED
and its controlled entities

4. DIVIDENDS PAID OR PROVIDED

	6 Months to 30 Sept 99 \$'000	6 Months to 31 Mar 99 \$'000	6 Months to 30 Sept 98 \$'000
Dividends provided	57,967 [^]	62,457*	48,344*
[^] 65% franked at 36%			
* Fully franked at 36%			
	Cents per Share		
Cash Dividends Per Share	34	38	30

5. EARNINGS PER SHARE

	30 Sept 99 \$'000	31 Mar 99 \$'000	30 Sept 98 \$'000
	Cents per Share		
Basic earnings per share	54.9	51.7	49.6
Diluted earnings per share is not materially different from basic earnings per share			
Weighted average number of ordinary shares on issue used in the calculation of basic earnings per share	167,276,199	162,779,996	162,184,045

6. SECURITIES

	30 Sept 99 \$'000	31 Mar 99 \$'000	30 Sept 98 \$'000
Trading Securities			
Australian government bonds	2,902,043	490,589	361,899
Treasury notes and other government securities	1,398,034	350,199	284,575
Bills discounted	1,336,253	433,617	574,411
Securities held as part of other trading activities	966,745	566,331	749,070
Units in unit trusts	1	1	1
	6,603,076	1,840,737	1,969,956
Other Securities			
Investment securities	15,937	—	—
Units in unit trusts	25,442	27,093	26,495
Unquoted shares	134	134	132
	41,513	27,227	26,627
Total Securities	6,644,589	1,867,964	1,996,583

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**
at 30 September 1999

continued

7. OTHER ASSETS

	30 Sept 99 \$'000	31 Mar 99 \$'000	30 Sept 98 \$'000
Amounts due from R&D joint ventures	362,306	314,615	300,058
Amounts due from brokers and clients	248,394	246,888	156,101
Unrealised gains on revaluing other financial instruments	4,595,193	1,667,606	2,031,189
Debtors and prepayments	1,038,721	279,219	188,696
Stock lending debtors	190,866	25,329	23,402
Other	273,850	240,946	255,889
Property purchased for sale and development	21,493	10,689	12,578
Total Other Assets	6,730,823	2,785,292	2,967,913

8. OTHER LIABILITIES

	30 Sept 99 \$'000	31 Mar 99 \$'000	30 Sept 98 \$'000
Amounts due to brokers and clients	350,354	131,790	367,514
Unrealised losses on revaluing other financial instruments	4,609,317	1,603,365	1,665,238
Stock borrowing creditors	185,056	28,856	36,363
Creditors	516,777	222,162	239,879
Accrued charges and sundry provisions	344,417	331,866	171,223
Other	377,816	124,049	206,640
Total Other Liabilities	6,383,737	2,442,088	2,686,857

MACQUARIE BANK LIMITED
and its controlled entities

**9. PROVISION FOR UNCERTAINTIES AND
SPECIFIC PROVISIONS**

The provision for uncertainties is a general provision and is intended to cover the inherent risk of loss arising from the non-recovery of amounts receivable or contingently owing. The specific provisions relate to Loans and Advances where doubtful loans have been identified and provided for.

	6 Months to 30 Sept 99		6 Months to 31 March 99		6 Months to 30 Sept 98	
	Specific \$'000	Uncertainties \$'000	Specific \$'000	Uncertainties \$'000	Specific \$'000	Uncertainties \$'000
Balances at the beginning of the period	7,932	27,916	5,549	26,384	4,624	31,892
Provided during the period	5,433	—	2,956	1,532	3,566	—
Provision on acquired BTIB assets	—	21,714	—	—	—	—
Bad debts written off	(3,260)	—	1,909	—	(2,129)	—
Written back during the period	(453)	(1,313)	(2,482)	—	(512)	(5,508)
Balances at the end of the period	9,652	48,317	7,932	27,916	5,549	26,384
Specific provision as a percentage of loan assets	0.14%		0.16%		0.16%	
Provision for uncertainties as a percentage of risk weighted exposures		0.55%		0.56%		0.55%

**NOTES TO AND FORMING PART OF THE
FINANCIAL STATEMENTS**
at 30 September 1999

continued

10. SHARE CAPITAL AND RESERVES

	30 Sept 99 \$'000	31 Mar 99 \$'000	30 Sept 98 \$'000
Issued Ordinary Capital			
170,198,939 (30/9/1998: 159,761,695) fully paid ordinary shares	364,373	242,602	165,054
Transfer of share premium reserve to share capital on 1 July 1998 *	—	—	71,454
Transaction costs for issue of 5,160,000 ordinary shares	(1,213)	—	—
Total fully paid shares	363,160	242,602	236,508
650,000 (30/9/1998: 4,021,779) partly paid ordinary shares (non-voting until converted to fully paid)	832	3,124	3,190
Transfer of share premium reserve to share capital on 1 July 1998 *	—	—	226
Total partly paid shares	832	3,124	3,416
Total Issued Ordinary Capital	363,992	245,726	239,924
Share Premium Reserve			
Balance at beginning of the period	—	—	69,002
Premium paid on conversion of partly to fully paid shares	—	—	1,490
Premium paid on exercise of share options	—	—	1,188
Transfer of share premium reserve to share capital on 1 July 1998: *			
– in respect of fully paid shares	—	—	(71,454)
– in respect of partly paid shares	—	—	(226)
Total Share Premium Reserve	—	—	—
Macquarie Income Securities			
Balance at beginning of the period	—	—	—
Proceeds from issue of 2,000,000 securities of \$100 each	200,000	—	—
Transaction costs for issue of Macquarie Income Securities	(4,948)	—	—
Total Macquarie Income Securities	195,052	—	—

* Share premium reserve was transferred to share capital on 1 July 1998 in accordance with the Company Law Review Act 1998 which repealed the provisions in the Corporations Law relating to the par value of shares from that date.

11. ACQUISITION OF BTIB BUSINESS

On 25 June 1999, the Bank announced that it would acquire the BTIB business. The acquisition became effective on 31 July 1999. The operating results of the BTIB business have been included in the profit and loss statement since the date of acquisition.

Details of the acquisition are as follows:

	Fair Value of Net Assets Acquired \$'000
Cash	32,592
Securities purchased under resale agreements	3,808,919
Securities	3,950,764
Loans and advances	2,820,459
Other assets	1,313,295
Total assets	11,926,029
Deposits and borrowings	(4,949,392)
Securities borrowed	(3,500,001)
Securities sold under repurchase agreements	(1,210,000)
Other liabilities	(2,136,703)
Total liabilities	(11,796,096)
Net assets acquired	129,933
Cash consideration	110,000
Discount on acquisition	19,933

12. COOPERS & LYBRAND AND PRICE WATERHOUSE MERGER

Coopers & Lybrand and Price Waterhouse merged on 1 July 1998. The merged firm PricewaterhouseCoopers is the auditor of the Bank and its controlled entities with effect from 1 July 1998. Auditors' remuneration includes all amounts paid to PricewaterhouseCoopers during the period.

A small number of former Coopers & Lybrand partners have loans with the Bank. Class Order 98/1868 dated 22 September 1998 was received from the ASIC which 'grandfathers' all indebtedness of these partners. This Class Order requires:

- (a) The Bank to report to the ASIC within 30 days of its occurrence, any event of default or any enforcement action taken on these loans;
- (b) the Directors of the Bank to report to the ASIC within seven days after signing the Directors' Report whether, in the opinion of the Board Audit and Compliance Committee, the Class Order has been complied with; and
- (c) PricewaterhouseCoopers to report to the ASIC within seven days after signing the Auditors' Report whether the audit has been influenced by the indebtedness.

DIRECTORS' DECLARATION

The Directors declare that the financial statements and notes set out on pages 18 to 28:

- (a) comply with Accounting Standards and the Corporations regulations and other mandatory professional reporting requirements; and
- (b) give a true and fair view of the consolidated entity's financial position as at 30 September 1999 and of its performance, as represented by the results of their operations and their cash flows for the half-year ended on that date.

In the Directors' opinion there are reasonable grounds to believe that Macquarie Bank Limited will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors.



D.S. Clarke, Director



A.E. Moss, Director

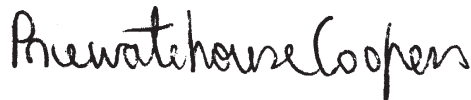
Sydney,
16 November 1999

INDEPENDENT REVIEW REPORT TO THE MEMBERS OF MACQUARIE BANK LIMITED

SCOPE

We have reviewed the financial report of Macquarie Bank Limited ('the Bank') for the half-year ended 30 September 1999 as set out on pages 18 to 29. The Bank's Directors are responsible for the financial report which includes the consolidated statements of the consolidated entity comprising the Bank and the entities it controlled at the end of, or during, the half-year. We have performed an independent review of the financial report in order to state whether, on the basis of procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 – Half-Year Accounts and Consolidated Accounts, other mandatory professional reporting requirements and the Corporations Law, so as to present a view which is consistent with our understanding of the Bank's financial position, and performance as represented by the results of its operations and its cash flows.

Our review has been conducted in accordance with Australian Auditing Standards applicable to review engagements. The review is limited primarily to inquiries of company personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance provided is less than that given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.



PricewaterhouseCoopers
Chartered Accountants



D.H. Armstrong
Partner

STATEMENT

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Bank is not in accordance with:

- (a) the Corporations Law; including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 September 1999 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 1029 – Half-Year Accounts and Consolidated Accounts and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

Sydney,
16 November 1999

FIVE YEAR SUMMARY

Macquarie Bank Limited

	Years ended 31 March					Half-Year
	1995	1996	1997	1998	1999	2000
PROFIT AND LOSS (\$ million)						
Total operating income	355.1	435.2	530.1	664.7	831.2	532.5
Operating expenses	284.9	336.1	391.9	497.8	613.4	412.4
Operating profit before income tax	70.2	99.1	138.2	166.9	217.8	120.1
Income tax (expense)/benefit	5.9	(5.9)	(21.3)	(25.7)	(52.8)	(28.5)
Operating profit after income tax	76.1	93.2	116.9	141.2	165.0	91.5
BALANCE SHEET (\$ million)						
Total assets	4,624	5,174	6,849	7,929	9,251	27,613
Total liabilities and loan capital	4,244	4,746	6,349	7,348	8,599	26,613
Shareholders' funds	380	428	500	581	651	998
Shareholders' funds and loan capital	590	662	679	884	962	1,458
Risk weighted assets	3,731	4,030	4,686	4,967	4,987	8,555
Total loan assets (a)	2,233	2,455	2,470	3,029	3,947	6,693
Impaired assets (net of provisions)	49	57	46	12	44	26
SHARE INFORMATION						
Basic earnings per share						
Adjusted (cents) (b)	51.0	61.0	74.9	88.1	101.3	54.9
Cash dividends per share						
Adjusted (cents) (b)	28.2	34.7	43.0	51.0	68.0	34.0
Share price at 31 March/30 Sept						
Unadjusted (\$)	4.80	6.00	8.50	14.4	19.1	19.8
Adjusted (\$) (b)	4.37	5.78	8.50	14.4	19.1	19.8
Bonus issue ratio	1:17	1:26	—	—	—	—
Issued ordinary capital (million shares) (c)	128.2	138.7	151.4	157.6	161.1	170.2
Market capitalisation at 31 March/30 Sept (fully paid ordinary shares) \$ million	616	832	1,287	2,262	3,077	3,365
RATIOS						
Return on average ordinary shareholders' funds	21.1%	23.1%	25.2%	26.1%	26.8%	25.2%
Payout ratio	57.0%	61.0%	60.5%	57.9%	67.2%	63.3%
Capital adequacy ratio	15.4%	15.4%	13.2%	16.4%	17.3%	15.6%
Tier 1 Capital adequacy ratio	10.2%	10.6%	10.7%	11.7%	13.3%	13.3%
Impaired assets as % of loan assets	2.2%	2.3%	1.8%	0.4%	1.1%	0.5%
Net loan losses as % of loan assets	0.0%	0.0%	0.0%	0.0%	0.1%	0.0%
FUNDS UNDER MANAGEMENT (\$ billion)						
Retail	4.7	5.6	7.2	9.0	9.8	10.2
Wholesale	6.3	7.5	8.5	10.3	9.8	10.7
Listed trusts	0.8	0.6	1.1	1.6	2.3	2.5
Other	0.1	0.1	0.1	0.5	0.5	0.4
	11.9	13.8	16.9	21.4	22.4	23.8
ASSETS UNDER ADMINISTRATION (\$ billion)						
Mortgages	0.9	2.7	4.8	7.0	8.7	8.9
Listed trusts	—	1.1	1.3	1.3	1.5	1.9
Other	—	0.2	0.2	0.3	0.4	0.6
	0.9	4.0	6.3	8.6	10.6	11.4
Total	12.8	17.8	23.2	30.0	33.0	35.2
Staff Numbers	1,704	1,732	1,965	2,474	2,916	3,648

(a) Includes loans and advances, leases and balances due from governments.

(b) Adjusted for bonus issues, up to and including 1996 bonus issue.

(c) Number of fully paid shares at 31 March/30 Sept, excluding options and partly paid shares.

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Please note:

No country codes have been included. When telephoning Australia or New Zealand, the first '0' in the area code should NOT be dialled.